

Multifamily Metro Outlook:

Phoenix - Q4 2024

Overview:

- According to Moody's Analytics, Phoenix will outperform the region and the nation in the year ahead. In fact, it is forecast to have one of the highest rates of job growth in the nation, adding over 130,000 jobs cumulatively in 2025 and 2026.
- Nevertheless, multifamily fundamentals continue to weaken in Phoenix, largely due to a prolonged surge in deliveries. As a result, the average vacancy rate of 7.5% in Q4 2024 is now 3 percentage points above the pre-pandemic level in Q1 2020. A third of units are offering concessions that average three weeks of free rent, compared to just 16% of units two years ago. While supply slowed slightly in Q4, an elevated amount of supply is still underway, leading to ongoing softness in 2025.

Market Strengths:

- While 13.2% of jobs remain in the housing sector, above the 9.9% national average, the economy has diversified over the past 20 years. About 8.7% of jobs are in finance, compared to 5.8% nationwide, and 16.1% of jobs are in the well-paying professional services sector, compared to about 14.3% nationwide.
- Phoenix has the third-highest rate of in-migration among metro areas with at least 1 million residents. Moody's expects strong net migration of about 85,000 residents added in 2025, providing continued strong demand for all types of housing, including apartment rentals. In addition, the primary renting cohort, ages 20-34, makes up about 21% of the population. This cohort is expected to grow faster than the national average over the next five years, aided by annual average enrollment growth of 0.6% for students at Arizona State University.
- Many migrate to the metro for jobs in the well-paying high-tech sector, dubbed the Silicon Desert. It now accounts for about 5.5% of employment, 0.2 percentage points above the national average. The high-tech manufacturing core includes major employers Intel and Honeywell Aerospace. In addition, the CHIPS act and reshoring have supercharged investment in the metro's semiconductor sector. According to Moody's Analytics, TSMC and Intel are leading the way, with plans to invest nearly \$200 billion—equivalent to almost half of nominal metro area output—to build eight fabrication plants and multiple support facilities. In addition, Microsoft, Google, and Apple have invested in data centers throughout the metro due to affordable energy prices.

Market Weaknesses:

- While Phoenix is in State 1 Water Alert, which indicates there is no immediate water shortage, water shortage remains a problem in the long term. According to the City of Phoenix's water services website, Colorado River water, which includes water from Lake Meade, supplies roughly 40% of the City's water. Phoenix does have water conservation measures, such as recycling nearly all its wastewater, which it uses in agriculture and energy production. It remains to be seen whether such measures will be sufficient.
- Investors have built to rent thousands of single-family homes in the West and East valleys and rehabbed less expensive single-family homes into rentals. This has influenced the inventory of single-family homes for sale, which remains low. Some would-be homeowners may leave the area to find markets with more affordable homes to buy.
- While rent has declined by almost 4 percentage points since Q4 2022, affordability has deteriorated.

Multifamily Development:

- The pace of development has slowed somewhat with 27,000 units underway as of Q4 2024 compared to 28,900 units as of Q3 2024, but it remains elevated, representing a 6.5% increase in inventory. While about 9% of units underway are in Central Phoenix, development currently appears to be spread out around the metro. However, most of the new supply underway consists of expensive Class A units. Only an estimated 4.5% of units involve subsidies to build new affordable units.
- A 2023 law requires that developers seeking to build new construction will have to demonstrate they can provide an "assured water supply" for 100 years using water from a source that is not local groundwater. This mainly affects new developments on the edges of Phoenix.

Multifamily Outlook:

- Based on expected job growth, Phoenix will likely find demand for 18,000 new units over the next two years, falling far short of the 27,000 units underway. Phoenix is likely in for continued volatility while it works through the backlog of new supply.

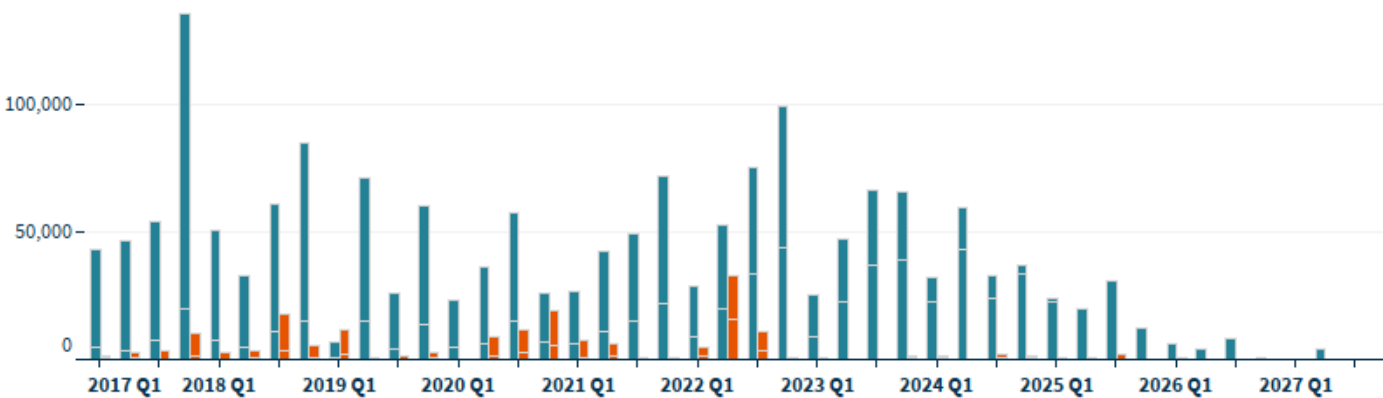
Economic Outlook:

- In the long term, Phoenix is likely to remain one of the stronger economies in the country due to its pro-business environment and low living costs relative to other West Coast metros. This and the potential amount of available land should continue to attract both employers and population. Even so, Phoenix will continue to have high cyclical volatility due to the economy's dependence on investment and population inflows. In addition, the long-term impact of rising insurance costs and water shortages remains unclear.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

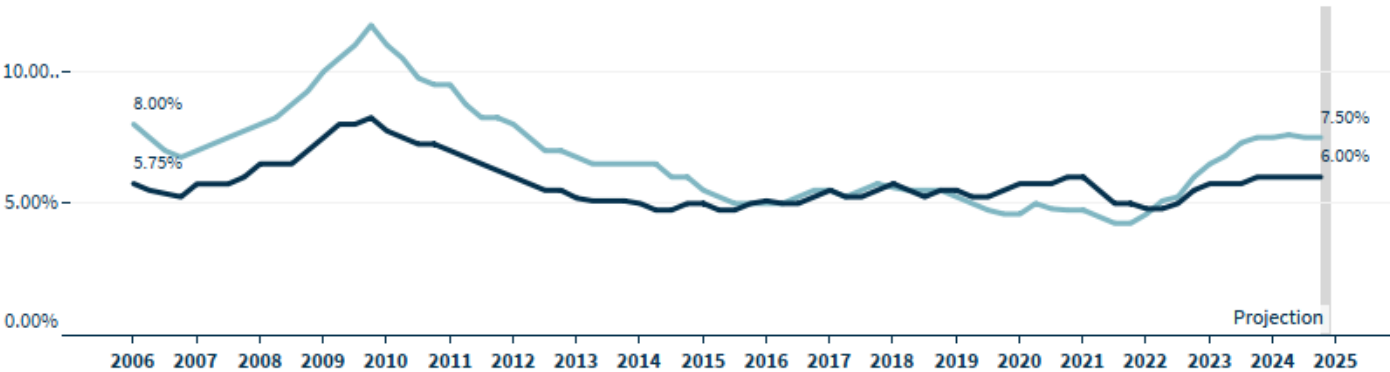
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Phoenix | National

Q4 2024 Vacancy Rate:

7.50%



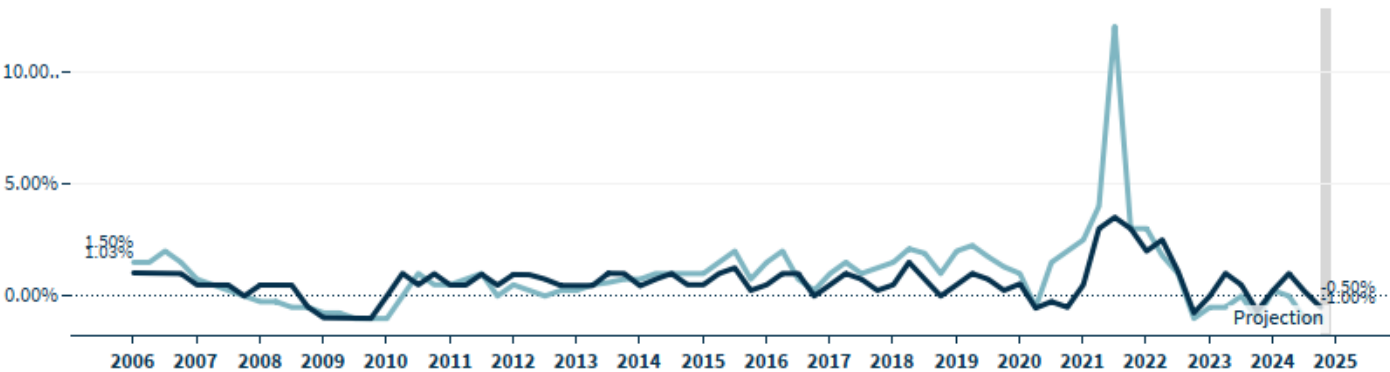
Projection

Asking Rent Growth

Phoenix | National

Q4 2024 Asking Rent:

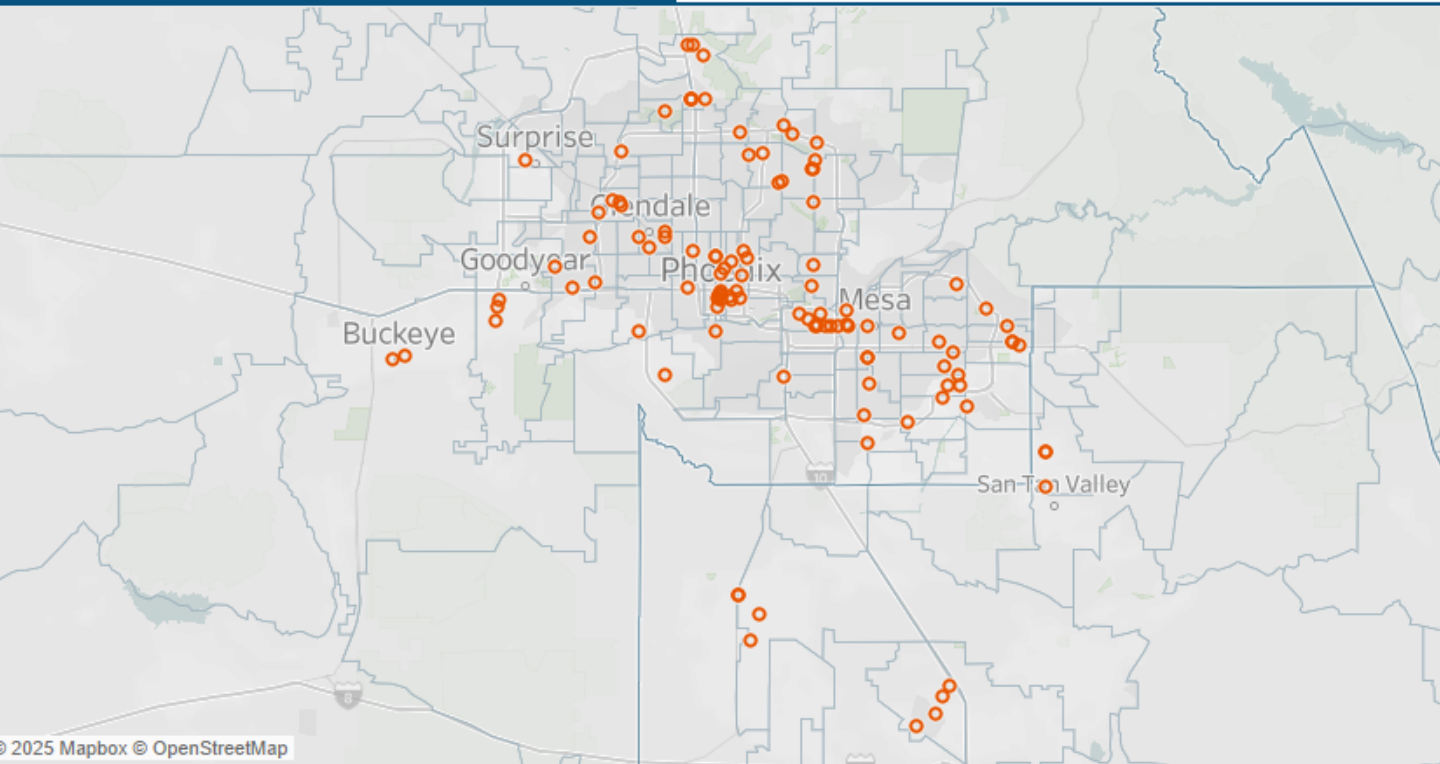
\$1,520



Projection

Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Avondale/Goodyear/West Glendale	9	3,461
Central Phoenix	12	2,444
Chandler	3	786
Deer Valley	9	2,396
East Mesa	11	2,475
Far West Phoenix	1	164
Gilbert	8	2,415
North Central Phoenix	8	1,008
North Glendale	2	5
North Scottsdale	5	1,685
North Tempe/University	9	3,148
Northeast Phoenix	4	992
Northwest Mesa	4	1,050
Peoria/Sun City/ Surprise	5	1,043
Pinal County	9	1,534
South Glendale	4	678
South Phoenix	3	684
South Scottsdale	3	660
Southwest Mesa	1	72
West Phoenix	2	285
Grand Total	112	26,985

Source: Dodge Data & Analytics SupplyTrack Pipeline

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Multifamily Economics and Market Research Team

Tanya Zahalak, Economic and Strategic Research

Sources Used

- Moody’s Economy.com
- Moody’s CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics Real Estate Analyzer
- CBRE-Econometric Advisors
- Yardi

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